

# **Stadium Authority State of Hawaii**

**Financial Audit**

**June 30, 2002**

September 9, 2002

Mr. Edwin K. Hayashi, Stadium Manager  
Aloha Stadium  
State of Hawaii  
P.O. Box 30666  
Honolulu, Hawaii 96820

Dear Mr. Hayashi:

We have completed our audit of the financial statements of the Stadium Authority (Authority), State of Hawaii, as of and for the year ended June 30, 2002, as listed in the table of contents. We transmit herewith our reports containing our opinion on those financial statements and our report on internal controls and compliance with applicable laws and regulations in accordance with the U.S. General Accounting Office's *Government Auditing Standards*.

## **Audit Objectives**

The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fair presentation of the Authority's financial statements.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Authority is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii.
3. To determine whether the Authority's internal control over financial reporting is adequate in assuring that there is effective control over and proper accounting of revenues, expenditures, assets and liabilities.
4. To determine whether the Authority has complied with the laws, regulations, contracts and grants that may have a material effect on the financial statements.

Mr. Edwin Hayashi  
September 9, 2002  
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## Scope of Audit

The scope of our audit included:

1. An audit of the financial transactions, books and accounts of the Authority, including tests of the financial data.
2. As part of the audit of the Authority's financial statements, an evaluation of the internal control over financial reporting to determine its adequacy in assuring that there is effective control over and proper accounting of revenues, expenditures, assets and liabilities.
3. As part of the audit of the Authority's financial statements, an evaluation of the Authority's compliance with laws, regulations, contracts and grants.
4. Examine the implementation of the recommendations contained in prior year's audit report.

## Organization of Report

This report is divided as follows:

1. The financial statements and related notes of the Authority, as of and for the year ended June 30, 2002, and our opinion as to the fairness of the presentation of those statements.
2. Our report on the Stadium Authority, State of Hawaii's compliance with applicable laws, regulations, contracts, grants and internal control over financial reporting in accordance with *Government Auditing Standards*.

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We would like to take this opportunity to thank the staff of the Authority for their courteous cooperation and assistance during our audit.

Very truly yours,

DMT: tkt

Attachments

**Stadium Authority  
State of Hawaii**

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## **PART I**

### **Financial Statements**

## **Report of Independent Accountants**

State of Hawaii  
Stadium Authority

We have audited the financial statements of the Stadium Authority, State of Hawaii, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the Stadium Authority, State of Hawaii's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Stadium Authority, State of Hawaii are intended to present the financial position and results of operations and cash flows of only that portion of the funds of the State of Hawaii that is attributable to the transactions of the Stadium Authority.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stadium Authority, State of Hawaii as of and for the year ended June 30, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Stadium Authority has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2002 on our consideration of the Stadium Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Honolulu, Hawaii  
September 9, 2002

# Stadium Authority State of Hawaii

## Statement of Net Assets June 30, 2002

Assets			
<b>Current Assets:</b>			
Cash:			
Cash in State Treasury	\$ 6,102,428		
Cash in bank and on hand	248,247	\$ 6,350,675	
Receivable from concessionaire and other		422,224	
Total current assets		6,772,899	
<b>Property, Structure and Equipment:</b>			
Land and land improvements	11,518,621		
Stadium structure	90,571,260		
Equipment, furniture and fixtures	8,153,550		
	110,243,431		
Less accumulated depreciation	(56,718,605)	53,524,826	
<b>Other Assets:</b>			
Cash held by other state agency		704,697	
Total assets		\$ 61,002,422	
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities:</b>			
Vouchers payable		\$ 166,403	
Accrued compensation		642,990	
Deferred income		53,228	
Other		71,779	
Total current liabilities		934,400	
<b>Due to State of Hawaii General Fund for</b>			
<b>Advances for Imprest Funds</b>		30,000	
<b>Licensees' Deposits</b>		66,300	
Total liabilities		\$ 1,030,700	
<b>Net Assets:</b>			
Invested in capital assets		\$ 53,524,826	
Unrestricted		6,446,896	
Total net assets		\$ 59,971,722	

The accompanying notes are an integral part of the financial statements.

# Stadium Authority State of Hawaii

## Statement of Revenues, Expenses and Changes in Net Assets For the Year Ended June 30, 2002

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### Operating Revenues:

Rentals from attractions		\$ 4,718,365
Commissions from food and beverage concessionaire		1,662,257
Parking		534,457
Advertising		271,063
Other		77,876
		<hr/> 7,264,018

### Operating Expenses:

Depreciation	\$ 3,824,953	
Personnel services	3,313,580	
Utilities	644,941	
Professional services	508,180	
Repairs and maintenance	489,089	
Special fund assessments	457,195	
Supplies	214,418	
Security	190,081	
Other	214,249	
	<hr/>	9,856,686
Operating loss		(2,592,668)

### Nonoperating Revenues:

Interest income		226,320
Net loss		<hr/> (2,366,348)
Add depreciation on property, structure and equipment acquired from resources externally restricted for capital acquisitions which amount reduces contributed capital		2,527,394
		<hr/> 161,046

<b>Net Assets at Beginning of Year</b>	<hr/> 59,810,676
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<b>Net Assets at End of Year</b>	<hr/> <hr/> \$ 59,971,722
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The accompanying notes are an integral part of the financial statements.



# Stadium Authority State of Hawaii

## Statement of Cash Flows For the Year Ended June 30, 2002

Increase (Decrease) in Cash	
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 7,261,772
Cash paid to suppliers and employees	<u>(5,956,206)</u>
Net cash provided by operating activities	\$ 1,305,566
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Purchase of property and equipment	<u>(425,146)</u>
Net cash used in capital and related financing activities	(425,146)
<b>Cash Flows from Investing Activities:</b>	
Interest from investments	<u>226,320</u>
Net cash provided by investing activities	<u>226,320</u>
Net increase in cash	1,106,740
Cash at July 1, 2001	<u>5,948,632</u>
Cash at June 30, 2002	<u><u>\$ 7,055,372</u></u>
<b>Noncash Capital and Financing Activities:</b>	
Capital assets contributed by state agencies	<u><u>\$ 7,770</u></u>

### Reconciliation of Net Income to Net Cash Provided by Operating Activities

Operating Loss	\$ (2,592,668)
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>	
Depreciation expense	3,824,953
Changes in –	
Receivables	(2,246)
Vouchers payable	(9,984)
Accrued compensation	33,823
Licensees' deposit	35,350
Deferred income	(2,750)
Other liabilities	<u>19,088</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,305,566</u></u>

The accompanying notes are an integral part of the financial statements.

# **Stadium Authority State of Hawaii**

## **Notes to the Financial Statements June 30, 2002**

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### **1. Financial Reporting Entity**

The State of Hawaii, Stadium Authority (Authority), was established by Act 172, Session Laws of Hawaii (SLH) 1970, effective June 30, 1970, and was placed within the State of Hawaii, Department of Budget and Finance (B&F), for administrative purposes. Effective June 1, 1980, Act 302 SLH 1980 and Executive Order No. 80-5 dated June 20, 1980 transferred the administrative responsibility for the Authority from B&F to the State of Hawaii, Department of Accounting and General Services (DAGS).

The Authority is responsible for the operation, management and maintenance of Aloha Stadium, located in Honolulu, Hawaii.

The accompanying financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the funds of the State of Hawaii that is attributable to the transactions of the Authority.

### **2. Significant Accounting Policies**

The accounting policies of the Authority used in the accompanying financial statements conform to generally accepted accounting principles applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB) through its statements and interpretations. The following is a summary of the more significant accounting policies.

#### **Basis of Accounting**

The accounts of the Authority are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

#### **Cash in State Treasury and Bank**

Cash reported in the balance sheet includes cash in the State Treasury and cash in two separate bank accounts.

The Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury (cash pool). The Authority's portion of this cash pool at June 30, 2002 is indicated on the combined balance sheet as Cash in State Treasury. The credit risk is determined at the State level and not by Department or Authority.

The Hawaii Revised Statutes authorize the Director of Finance to invest in obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with State statutes.

# Stadium Authority State of Hawaii

## Notes to the Financial Statements June 30, 2002

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### Property, Structure and Equipment

Property, structure and equipment are recorded at cost, except for certain parcels of contributed land, which are recorded at estimated market value at the date of acquisition.

Depreciation has been provided for the stadium structure and equipment over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Stadium structure	20 - 40 years
Equipment, furniture and fixtures	5 - 15 years

Maintenance, repairs, minor replacements and renewals are charged to operations as incurred. Major replacements, renewals and betterments are capitalized.

Depreciation recognized on assets acquired or constructed from capital contributions is charged to contributed capital.

### Cash Held by Other State Agency

Cash held by other state agency is reflected as other assets since it is not available to meet current obligations. This cash is used to purchase fixed assets and for major repairs and maintenance expenditures. Cash held by other state agency is classified as cash for cash flow reporting purposes.

### Net Assets

Net assets comprise the various net earnings (loss) from operating and nonoperating revenues and expenses. Net assets are classified in the following components: invested in capital assets and unrestricted net assets. Invested in capital assets consists of capital assets, net of accumulated depreciation. Unrestricted net assets consist of all other net assets not included in the other category.

### Use of Estimates in Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### New Accounting Pronouncements

In December 1998 and April 2000, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*," and Statement No. 36, "*Recipient Reporting for Certain Shared Nonexchange Revenues – an Amendment of GASB Statement No. 33*," respectively, which were effective for fiscal 2001. These Statements establish accounting and financial reporting standards for nonexchange transactions involving

# Stadium Authority State of Hawaii

## Notes to the Financial Statements June 30, 2002

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financial or capital resources. The principal issue addressed in these Statements is the timing of recognition of nonexchange transactions. The implementation of these statements did not have a material impact on the Authority's financial statements.

In June 1999, the GASB issued Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*," which establishes financial reporting standards and that the basic financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis; basic financial statements, including government-wide financial statements, fund financial statements and notes to the financial statements; and required supplementary information. Governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities.

In June 2001, the GASB issued Statement No. 37, "*Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*", and No. 38, "*Certain Financial Statement Note Disclosures*," to be implemented simultaneously with Statement 34. Statement 37 amends Statement 34, which includes management's discussion and analysis requirements, adoption of the modified approach for previously depreciated infrastructure assets, program revenue classifications, major fund reporting requirements, elimination of the requirement to capitalize construction-period interest for governmental activities, and modification of the minimum level of detail required for business-type activities. Statement 38 also modifies Statement 34 by establishing and modifying disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

The State of Hawaii basic financial statements, of which the Authority is included, has implemented Statements No. 34, 37 and 38 in its entirety as of June 30, 2002. The Authority has implemented Statements No. 34, 37 and 38 in conjunction with the State's implementation, however, has excluded management's discussion and analysis, which the GASB has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

### 3. Budgeting

The Authority's operations are subject to a comprehensive budget. Estimated revenues and expenses are provided to the State of Hawaii's Department of Budget and Finance for accumulation with budgeted amounts of the other state departments and offices. Those accumulated estimated revenues and expenses are provided to the State of Hawaii legislature for approval. Once approved by the legislature, the estimates are provided to the Governor of the State of Hawaii for final approval. Budgeted revenues are estimates of rentals, commissions and other revenues to be received during the year. Budgeted expenses are estimates of expenditures to be made.

# Stadium Authority State of Hawaii

## Notes to the Financial Statements June 30, 2002

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Differences between revenues and expenses measured on the budgetary basis and those reported in accordance with generally accepted accounting principles are mainly due to the different methods used to recognize resource uses. For budgeting purposes, resource uses are recognized when cash disbursements are made or funds are encumbered. In financial statements presented in accordance with generally accepted accounting principles, expenses are recognized as incurred and encumbrances are not reported as resources used.

### 4. Net Assets

At June 30, 2002, net assets consisted of the following:

<b>Invested in Capital Assets:</b>	
Property and equipment, net	\$ 53,524,826
<b>Unrestricted</b>	<u>6,446,896</u>
Net Assets	<u><u>\$ 59,971,722</u></u>

### 5. Employee Benefits

#### Employees' Retirement System

Substantially all eligible employees of the Authority are members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

# Stadium Authority State of Hawaii

## Notes to the Financial Statements June 30, 2002

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Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 18 years from July 1, 1998.

The Authority's payroll for employees covered by the plan for the year ended June 30, 2002 was approximately \$1,659,000. The payroll for all the Authority's employees for the year was \$3,450,000. There were no contributions made to the ERS by the Authority for the year ended June 30, 2002.

ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii  
201 Merchant Street, Suite 400  
Honolulu, Hawaii 96813

The following data was obtained from the disclosures contained in the CAFR for the year ended June 30, 2000, the most recent available.

The number of employers as of March 31, 2001 was:

State	1
Counties	<u>4</u>
Total employers	<u><u>5</u></u>

### **Basis of Accounting**

The financial statements of the ERS are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### **Method Used to Value Investments**

Plan investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments and real estate owned are based on independent appraisals and estimated values.

# **Stadium Authority State of Hawaii**

## **Notes to the Financial Statements June 30, 2002**

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### **Post-Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State of Hawaii (State) provides certain health care and life insurance benefits for retired state employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The Authority's general fund share of the expense for post-retirement benefits for the year ended June 30, 2002 has not been separately computed and is not reflected in the Authority's financial statements.

### **Deferred Compensation**

The State established a deferred compensation plan (Plan) in accordance with Section 457 of the Internal Revenue Code, which enables State employees to defer a portion of their compensation. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, as well as property and rights purchased with those amounts and income attributable to these amounts, are held in trust for the exclusive benefit of participants and their beneficiaries.

### **Accrued Vacation**

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end, and is convertible to pay upon termination of employment. Accrued vacation leave at June 30, 2002 amounted to \$428,511.

### **Accrued Sick Leave**

Full-time employees are credited with sick leave at a rate of one and three-quarter days per month of service. Unused sick leave may be accumulated without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System. Accumulated sick leave at June 30, 2002 approximated \$1,261,091.

## **6. Stadium Special Account**

Contracts with licensees of the Authority and the related ticket sales are controlled in the "Stadium Special Account." This account's cash balance and liabilities to third parties are included in the accompanying balance sheet as of June 30, 2002 and amounted to \$218,247. The activity in the account is included in the accompanying statement of revenues and expenses only as it relates to the Authority's rentals from attractions, expense reimbursements from users and other miscellaneous transactions.

# **Stadium Authority State of Hawaii**

## **Notes to the Financial Statements June 30, 2002**

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### **7. Commitments and Contingencies**

The Authority is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Authority's financial position. The State Attorney General has indicated that any damages found against the Authority as a result of any legal proceedings would normally be paid by the State of Hawaii's General Fund and, accordingly, would have no impact on the Authority's financial statements.

The State of Hawaii is self-insured for substantially all perils, including worker's compensation.

### **8. Special Fund Assessments**

In accordance with the Hawaii Revised Statutes, the Authority has been assessed amounts to support the State of Hawaii's central administrative services. The assessments are based upon a percentage of the Authority's estimated revenues and expenses for the year. Assessments amounted to \$457,195 for fiscal 2002.

### **9. Related Party Transactions**

The Authority has a contract with the University of Hawaii at Manoa Athletic Department for rental of the Aloha Stadium for the 2001 University of Hawaii football season home games. Rental income is computed per each game as the greater of \$10,000 or 7½% of all ticket receipts. Rent received from the Athletic Department was \$333,000 for the year ended June 30, 2002.



## **PART II**

### **Compliance and Internal Control**

**Report of Independent Accountants on Compliance  
and on Internal Control over Financial Reporting  
Based on an Audit of Financial Statements  
Performed in Accordance with  
*Government Auditing Standards***

Stadium Authority  
State of Hawaii

We have audited the financial statements of the Stadium Authority, State of Hawaii, as of and for the year ended June 30, 2002 and have issued our report thereon dated September 9, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Stadium Authority, State of Hawaii's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Stadium Authority, State of Hawaii's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Stadium Authority, State of Hawaii and is not intended to be and should not be used by anyone other than these specified parties.

Honolulu, Hawaii  
September 9, 2002